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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 003728

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TAGS: [EAID](#) [ECON](#) [PGOV](#) [PREL](#) [LE](#)

SUBJECT: LEBANON: FINANCE MINISTER UPDATES U/S FORE ON
PARIS III, AGREES TO VAT RELIEF FOR AID

Classified By: Ambassador Jeffrey D. Feltman for reasons 1.4 (b) and (d)
) .

SUMMARY

¶1. (C) Expressing appreciation to visiting Under Secretary Fore for U.S. assistance, Finance Minister Azour updated Fore on progress toward a donor conference and a broader economic reform program. Azour pledged prudent public finance and monetary policy measures which will see the Lebanese economy through current political instability. He agreed to find interim and long-term ways to waive value-added and customs taxes on U.S. assistance and to update the 1951 bilateral assistance agreement. End Summary.

PROCEEDING WITH PARIS III PREPARATIONS

¶2. (C) Finance Minister Jihad Azour met with visiting Under Secretary Henrietta Fore and the Ambassador on November 27,

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and expressed appreciation for U.S. assistance in planning for the Paris III donor conference. Azour also updated Fore on preparations for the conference and a broader economic reform program. Since the end of the war, the GOL has conducted a direct and indirect impact damage assessment in conjunction with the International Monetary Fund (IMF). The economic team completed sectoral needs assessments with the assistance of the World Bank. Finally, Azour said Lebanon is building a program to improve governance and transparency in public finance, procurement, and foreign assistance management. A second draft of the economic reform program will be ready for cabinet discussion by the end of this week.

The current political situation is not conducive but the economic team is readying a legal framework to support reform. The government is seeking to accelerate reviews of draft laws in a parliamentary vote of confidence, and is meeting with the private sector to build support.

¶3. (C) International cooperation is continuing despite political uncertainty. French officials are ready to send invitations and are preparing to hold the Paris III conference on January 25. Azour is preparing his regular end-of-month progress report and assistance request to Economic Core Group members. The Finance Ministry is continuing its regular consultations with bilateral and multilateral partners. As the volume of foreign aid increases, Azour is working with the IMF to implement greater GOL control over the sources and destinations of that aid.

Through customs and value-added tax (VAT) legislation, the Ministry of Finance and Ministry of Economy and Trade are able to oversee donations and audit aid use at non-governmental organizations. The Central Bank has the authority to oversee and audit cash donations.

ECONOMY WEATHERING
POLITICAL INSTABILITY

14. (C) The same prudent public finance and monetary policy measures that saw Lebanon through the July-August war will see it through the aftermath of the November 21 assassination of Industry Minister Pierre Gemayel, Azour told us. He alluded to "new inflows" similar to the long-term Saudi deposit of USD 1 billion at the Central Bank of Lebanon (CBL), made during the July-August war, and suggested that depositors who wanted to withdraw money did so during the war. Azour is increasingly consulting with the private sector in an effort to restore market confidence and support quick economic recoveries after bouts of political instability. (Comment: In separate conversations, local bankers report that since early November the Lebanese lira has come under pressure and the CBL is selling dollars for the first time since the July-August war. Estimates are that it sold USD 100-150 million (of USD 13.5 billion) in foreign currency assets on November 27. Bankers noted that capital outflows are minimal and the foreign exchange market reaction was small. In a separate action, Moody's Investor's Service downgraded the financial strength ratings of several Lebanese banks based on higher political instability and liquidity risk. End Comment.)

VAT RELIEF FOR AID, AND AN
UPDATED ASSISTANCE AGREEMENT

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15. (C) In response to Undersecretary Fore's request, Finance Minister Azour agreed to find both interim and long-term VAT and customs relief for U.S. assistance. Azour will appoint a small Ministry of Finance team to work with Embassy staff to find an interim solution based on measures implemented during the July-August war. Over the longer term, the same team will work with U.S. staff to update the 1951 bilateral Economic, Technical, and Related Assistance Agreement. (Background: The decree that exempted humanitarian shipments from VAT and customs dues expired October 31, 2006. The current bilateral agreement for technical cooperation was signed in 1951 and has limited provisions on tax exemptions and no exemptions related to aid. End Background.)
FELTMAN